

The Contract Decision – What Next?

Excerpt from, *Supporting the Army in Transition, Outsourcing as a Solution*, By Susan J. Harvey, **Program Manager**, September-October 2000, p.41.

Once the decision is made to outsource, what is the next step? Two options are available. The first option is to attempt to have a contract awarded to support the need, and the second option is to find an existing contract.

Contract Award to Meet the Need

Let's consider the first option – pursuing a contract award to meet the need. While it is no great secret how to place a service function under contract, the process can be challenging and time consuming. The government has intentionally created a myriad of structures, review authorities, and regulations to assure competitive fairness and to safeguard the public interest in outsourcing actions.

Originally designed primarily to prevent corruption, contract procedures have evolved into a daunting obstacle course that wears out all but the most persistent manager.

Most Federal Government procurement activities are regulated by the Federal Acquisition Regulation (FAR). The FAR establishes rules regarding the use of contracts in procuring goods and services for the government.

Contracts range from the fast but difficult-to-justify, noncompetitive procurement to the slow and labor-intensive open competition procurement. Generally, sole-source procurements are regarded as the exception to open competition and appropriate only in limited circumstances. The circumstances must be justified and include urgency of need, availability of only a single source, or a proprietary product produced by the provider that is not available elsewhere. Justifying sole source for the type services discussed in this article is difficult.

Full and Open Competitive Process

Unfortunately, the alternative of a full and open competitive process is time consuming if there is a need for a substantial level of services. If the need can be satisfied with a procurement of \$25,000 or less, then a simplified telephone solicitation process could result in a "purchase order." But if the need is over \$25,000, full competition is necessary. Even if under \$25,000 and the need is repetitive, a series of purchase orders could be time consuming.

Existing Contract Vehicles

If this process sounds too difficult, then let's review the use of existing contact vehicles. These typically are written on an open basis and allow anyone with a

need and money to obtain services they need quickly. Typically, existing contracts have already been competed; so the requirement for competition is satisfied.

The first decision criteria in identifying the existing contract that is most appropriate is to determine if a contract from a local contract office will support the requirement, or if the assistance of a broader-based contract generated by another contract office is needed. Local contract offices can usually handle small requirements under \$25,000. However, to obtain the best value for the government, projects that have a higher price tag should typically be procured through a large, omnibus contract. Large, omnibus contracts provide access to a wide range of services.

Types of Contracts

The next step for the manager is to determine what contract should be selected for the work to be accomplished. In the case of replacing soldiers performing routine, non-combat support or administrative tasks, there are three types of contracts commonly available: fixed price, cost plus fixed fee, and time and materials. Each is constructed to focus on a specific type of work environment.

Fixed Price Contract

The fixed price contract is usually the most preferable for the government. The entire risk of performance is assumed by the contractor to perform the job within the time and cost that were originally estimated. This type of contract is used when the desired product is well defined and there is no ambiguity between the government and the contractor on required deliverables.

Cost Plus Fixed Fee Contract

A cost plus fixed fee contract, on the other hand, shifts the risk to the government and is appropriate when the required product is not clearly defined or may change during the course of the contract period. This type contract covers all reasonable costs associated with performing required services, and provides the contractor a pre-negotiated, fixed fee, usually based on a percentage of contract costs.

Time and Materials Contract

The time and materials type of contract is selected when the government wants to buy labor services on an hourly basis and materials on a reimbursable basis. The contract is suited for work when there is a well-defined notion of the labor qualifications to do the job, but the level of services and material is not well defined. The downside of this contract is that the qualifications to do the job assume more importance than the productivity of the individual or firm selected for the task.